

Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 /026 W
----- 016387

R 081831Z NOV 76
FM AMEMBASSY LONDON
TO SECSTATE WASHDC 7448
INFO USMISSION EC BRUSSELS
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AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 17982

EXDIS

E.O. 11652: XGDS-1
TAGS: ENRG UK
SUBJECT: NORTH SEA OIL PARTICIPATION: BENN REJECTS
SHELL/ESSO PROPOSAL

REF: LONDON 17830, LONDON 16164, LONDON 15497, LONDON
14861, LONDON 14772, LONDON 14430 (LAST 5 NOTAL)

1. BEGIN SUMMARY: SHELL/ESSO HAS PUT TO HMG A WRITTEN PROPOSAL ON PARTICIPATION WHICH SECSTATE FOR ENERGY BENN HAS REJECTED. BENN PLANS TO MEET WITH SHELL/EXXON CHIEF EXECUTIVES POCOCK AND GARVIN EARLY DURING WEEK OF NOVEMBER 15 IN EFFORT TO BREAK DEADLOCK. (FYI ONLY: EXXON IS CONSIDERING SEEKING MEETING BETWEEN GARVIN AND PRIME MINISTER CALLAGHAN (AND POSSIBLY WITH OTHER CABINET LEVEL OFFICIALS) IN ORDER TO OBTAIN "FAIR" HEARING ON COMPANY'S VIEWS RELATING TO BASIC ISSUES OF RETAINING COMPANY CONTROL OVER ITS UPSTREAM AND DOWNSTREAM OPERATIONS IN UK AND RETAINING CONTROL OVER A PREPONDERANT AMOUNT OF CRUDE PRODUCED FROM ITS OWN NORTH SEA FIELDS.)
END SUMMARY.

2. SHELL/ESSO HAVE HAD A SERIES OF MEETINGS DURING PAST MONTH WITH SECSTATE BENN, PERM SEC SIR JACK RAMPTON AS WELL AS WORKING LEVEL OFFICIALS OF DEPARTMENT OF
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ENERGY WHICH HAVE SERVED TO UNDERLINE BASIC DIFFERENCES

OF APPROACH TO PARTICIPATION CONCEPT (SEE REFTELS). SHELL/ESSO STILL ARE NOT DISPOSED TO COMPROMISE ON FUNDAMENTAL ISSUES, AS THEY SEE IT, OF MAINTAINING CONTROL OVER THEIR OWN UPSTREAM AND DOWNSTREAM OPERATIONS IN UK AND OF THEIR OWN NORTH SEA CRUDE. DEPARTMENT OF ENERGY, CONVERSELY, HAS INSISTED ON EXTENSIVE CONSULTATION MECHANISM AND BNOC INVOLVEMENT IN COMPANY DEVELOPMENT, PRODUCING AND REFINING OPERATIONS AS QUID PRO QUO FOR AGREEING TO A COMPANY BUYBACK OPTION ON BNOC'S 51 PERCENT SHARE OF NORTH SEA CRUDE. BENN REPORTEDLY HAS REFUSED "TO GO BACK TO CABINET" TO SEEK AUTHORITY TO PROVIDE BUYBACK OIL ON BASIS OF AN OBJECTIVE (HISTORICAL BASE) FORMULA INSTEAD OF "NATIONAL INTEREST" CRITERION. ESSO CONTENTS ACCEPTANCE OF BENN APPROACH WOULD BE TANTAMOUNT TO GIVING DEPARTMENT OF ENERGY AND BNOC SUFFICIENT INFLUENCE TO ALLOW THEM TO EXERCISE CONTROL OVER DISPOSITION OF 100 PERCENT--NOT MERELY 51 PERCENT--OF COMPANY'S NORTH SEA CRUDE PRODUCTION AS WELL AS OVER FUTURE NORTH SEA DEVELOPMENT AND DOMESTIC REFINERY PLANS.

3. GENERALLY WORDED "VOLUNTARY" SHELL/ESSO PROPOSAL WAS SUBMITTED OCTOBER 29 (SENT SEPTTEL). AS ANTICIPATED BY COMPANIES, PROPOSAL WAS REJECTED BY BENN ON NOVEMBER 4. AT THAT TIME BENN STATED IMPASSE HAD BEEN REACHED, AND THAT NEGOTIATIONS SHOULD BE BROKEN OFF UNTIL SUCH TIME AS HE COULD MEET DIRECTLY WITH EXXON CHAIRMAN GARVIN AND SHELL CHAIRMAN POCOCK.

4. ESSO EUROPE CONFIRMS THAT WITHIN PAST SEVERAL WEEKS BENN HAS REITERATED HIS DETERMINATION TO PRESS AHEAD ON CONTROL ISSUE, USING THREAT OF FIFTH ROUND LICENSING DEADLINE TO PROPEL SHELL/ESSO TOWARD PARTICIPATION AGREEMENT. COMPANIES HAVE REFUSED TO BUDGE ON CONTROL ISSUE AS MATTER OF PRINCIPLE. THEY ALSO HAVE BUTTRESSED THEIR BASIC OPPOSITION WITH LEGAL ARGUMENTATION. (NOTE: SPECIFICALLY IT IS ARGUED THAT FOR SHELL/ESSO TO SUPPLY INFORMATION ON AND FOR BNOC TO APPROVE PROJECTED REFINERY AND MARKETING PLANS IN CONTEXT OF COMPANY BUYBACK RIGHT TO BNOC OPTION CRUDE COULD INFRINGE ARTICLE 85 OF ROME TREATY AS WELL AS UK RESTRICTIVE TRADE PRACTICES

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AND U.S. ANTITRUST LAW. BNOC IS A POTENTIAL SUPPLIER OF CRUDE OIL IN EEC MARKET AND IS BOUND TO BE INFLUENCED IN ITS OWN MARKETING PLANS BY KNOWLEDGE IT WOULD GET. FURTHER, BNOC WOULD BE ABLE TO INFLUENCE COMPANY'S FREEDOM TO PLAN AND THEREFORE COULD USE THIS INFLUENCE SO AS TO DISTORT COMPETITION. FACT THAT BNOC COULD INFLUENCE PLANS OF MORE THAN ONE COMPANY WOULD MAKE IT MORE LIKELY THAT COMPETITION WITHIN EC IS DISTORTED. POSSIBLE

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 17982

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SOLUTION PREPARED IN COOPERATION WITH GOVERNMENT SOLICITORS ARE FOR COMPANIES (A) TO SUPPLY INFORMATION TO DEPARTMENT OF ENERGY IN CONFIDENCE INSTEAD OF TO BNOC AND (B) REMOVE LINK BETWEEN BNOC APPROVAL AND COMPANY BUYBACK RIGHT BY PROVIDING FOR LATTER TO BE BASED ON DEFINITIVE FORMULA INVOLVING COMPANY'S UK REFINERY RUN IN PREVIOUS YEAR.) PRIOR TO HIGH LEVEL MEETINGS COMPANIES WILL WORK WITH DEPARTMENT OF ENERGY OFFICIALS IN ATTEMPT TO PREPARE DOCUMENT WHICH DESCRIBES PRECISE AREAS OF DISAGREEMENT. ESSO EUROPE OFFICIALS ARE UNCERTAIN WHETHER BENN INTENDS TO USE MID-NOVEMBER MEETINGS WITH GARVIN AND POCOCK FOR PURPOSES OF GIVING ULTIMATUM, SEEKING RECONCILIATION OR INCREASING BENN'S PRESTIGE AS OIL SHEIKH "LIKE YAMANI."

5. COMMENT: IT IS DIFFICULT TO JUDGE JUST HOW FAR SHELL/ESSO WILL ALLOW THEMSELVES TO BE PUSHED ON PARTICIPATION. BENN'S FIFTH ROUND LEVERAGE IS CONSIDERABLE, NOT SO MUCH FROM AN IMMEDIATE EXPLORATION AND DEVELOPMENT STANDPOINT AS FOR LONGER TERM INVOLVEMENT IN A 6TH, 7TH OR 8TH ROUND AND, MORE IMPORTANT, AS MATTER OF PROTECTING LONG TERM VIABILITY OF ALL EXXON INVESTMENTS IN UK. ON OTHER HAND, EXXON HAS CONSISTENTLY RESISTED PARTI-

CIPATION FORMULA WHICH COULD SET UNDESIRABLE ORECEDENT
FOR EXERCISE OF CONTROL OVER CRUDE ACCESS OR REFINING
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AND MARKETING OPERATIONS BY OTHER OECD NATIONS. SHOULD
SHELL/ESSO ABSTAIN, VOLUNTARILY OR OTHERWISE, FROM FIFTH
ROUND LICENSING, CLIMATE FOR PRIVATE INVESTMENT IN NORTH
SEA AND UK MORE GENERALLY COULD DETERIORATE AND CONSE-
QUENCES FOR BRITISH ECONOMY COULD BE SERIOUS.

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